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Economy Watch Namibia – April 2015

Expanded new Cabinet sworn in

Namibia not only celebrated her Independence Silver Jubilee on 21st March 2015, but also witnessed the inauguration of her third President, Hage Geingob, and his Cabinet. Additional ministries and the re-naming of existing ministries provided a hint of his priorities over the next five years. He outlined these priorities briefly in his inauguration speech focusing on the reduction of poverty and inequality, the provision of decent shelter, and creation of decent jobs.

Budget priorities in line with Inaugural speech

The appointment of the new Minister of Finance, Calle Schlettwein, can be regarded as a continuation of the prudent fiscal policy of the past, since he served as Permanent Secretary and Deputy Minister in this portfolio before his appointment as Minister of Trade and Industry end of 2012. In his presentation of the national budget to Parliament on 31st March 2015, he highlighted the following four priorities of the new Government: Inclusive economic growth through diversification and industrialisation; Poverty reduction and improvement of social welfare; Achievement of prosperity and wealth creation; and Performance-oriented and results-based work culture.

Development expenditure rise faster than operational expenditure

Expenditure excluding statutory expenditure is expected to increase by 9.6 per cent from NAD57.7 billion to NAD63.2 bn in 2015/16. Development expenditure is estimated to rise faster at 15.9 per cent to NAD11.1 bn than operational expenditure excluding interest payments – up by 8.4 per cent to NAD52.1 bn – while statutory expenditure (interest payments) is set to grow substantially by 54 per cent to NAD3.9 bn. Domestic interest payments account for 80 per cent of total statutory payments.

Moderate increases in personnel expenditure…

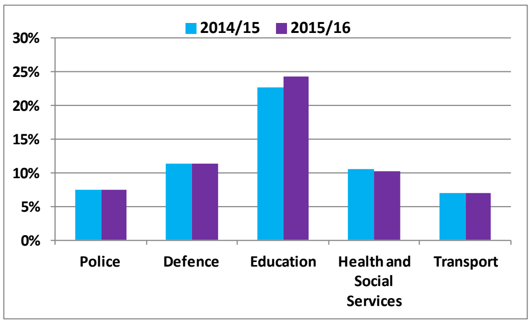
Personnel expenditure is expected to increase by 6.6 per cent during this financial year and by just 3.3 and 2.1 per cent in the following two years respectively, implying that civil servants have to live with less than inflationary salary adjustments. Overall, funded positions increased by 3.8 per cent to 116,510 although some Votes have had their approved and funded positions cut, such as the Ministry of Defence from 23,525 to 19,398. The creation of new ministries has not had a strong impact on public employment since the new ministries have taken over functions of existing ministries, for instance the State-owned Enterprise Governing Council Secretariat was moved from the Office of the Prime Minister to the Ministry of Public Enterprises; the Social Welfare function was moved from the Ministry of Labour to the new Ministry of Poverty Eradication and the Attorney General Office was separated from the Ministry of Justice. Personnel expenditure accounts for 35 per cent of total expenditure – one of the lowest shares over the past two decades.

…results in wages & salaries' share of total expenditure drop

Strong increase of

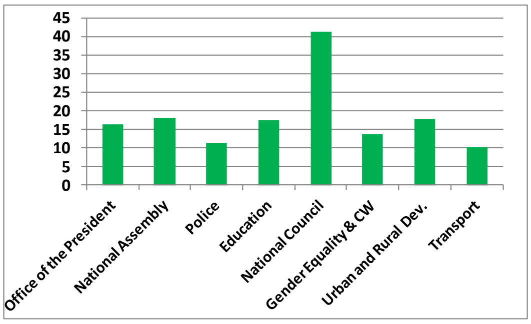
The strong increase by 66 per cent of the monthly old age grant

Budget allocation for selected Votes, 2014/15 and 2015/16



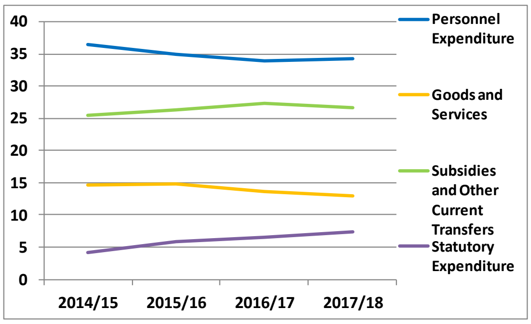
Source: Ministry of Finance: Estimates of Revenue and Expenditure 2015/16 to 2017/18.

Change in budget allocation for selected Votes in per cent, 2014/15 and 2015/16



Source: Authors' calculation based on Ministry of Finance: Estimates of Revenue and Expenditure 2015/16 to 2017/18.

Budget allocation for selected items in per cent, 2014/15 to 2017/18



Source: Ministry of Finance: Estimates of Revenue and Expenditure 2015/16 to 2017/18.

Old Age grant

from NAD600 to NAD1,000 per month and further increases over the next two years to NAD1,200 pm is a clear indication that poverty alleviation is a priority of Government. In addition, the Minister announced redistributive tax policies without elaborating further except for announcing a study into the effectiveness and equity of the current tax system. One area that warrants attention in this respect is the zero rated VAT for certain foodstuffs, such as milk and bread. These items are overwhelmingly consumed by the better off segments of the population. A brief analysis of the Household Income and Expenditure Survey 2009-10 reveals that households within the highest 20 per cent bracket of consumption expenditure account for almost 54 per cent of total consumption of fresh and long-life milk and for 32 per cent of total consumption of bread and brötchen. Hence, they are the main beneficiaries of the zero VAT rate as opposed to persons in the group with the lowest 20 per cent consumption expenditure. They account for 5 and 7 per cent of total consumption of these items respectively and hence benefit only marginally from the zero rating. Besides distributing the Old Age and Disability Grants, the new Ministry is also responsible for the establishment of the Food Bank that was previously housed by the Office of the Prime Minister.

Redistributive tax policy could re-consider VAT zero rating of certain foodstuff

The revenue side of the budget is characterised by the drop in transfers from the SACU Common Revenue Pool. The transfers declined by 5.5 per cent to NAD17.1 billion accounting for 29.3 per cent of total revenue. This share is expected to decrease further to 26.3 per cent in the next Financial Year. The decline is mainly due to the slow growth of the South African economy and consequently lower demand for imports and consumption of excisable products. Despite lower SACU receipts, overall revenue is anticipated to grow by 8.4 per cent to NAD58.4 bn this year and further to almost NAD70 bn at the end of the MTEF period. The increase is owed to two factors: robust economic performance and improved revenue collection. Increases in employment (see below) as well as salary increments are expected to result in an increase in revenue from Individual Income Tax by 13.9 percent to NAD15.2 bn taking second place with 22.9 per cent behind SACU receipts and just in front of income from Value Added Tax. VAT revenue is estimated to reach NAD12.9 bn, up by 16.7 per cent, thus contributing 22.1 per cent to total revenue. Company taxes are expected to show strong growth of 31.4 per cent to climb to NAD9.8 bn. However, income from royalties on diamonds and other minerals are expected to drop by 46.5 and 19.5 per cent respectively this year and mineral royalties by a further 35.5 per cent in the following year. We had expected an increase in income from mineral royalties in particular during the next year when the Husab Uranium Mine and B2Gold mine will reportedly reach full production, since royalties are levied on production and not on profits.

Revenue characterised by declining share of SACU transfers…

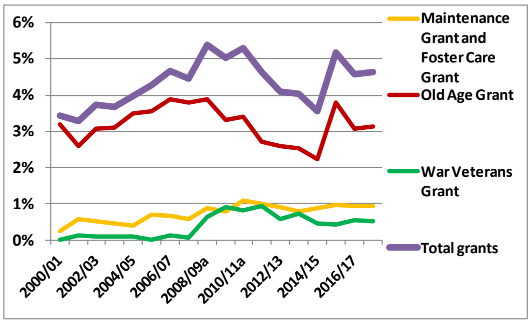
…and stronger domestic revenue collection

Revenue from mineral royalties on downward trend

It is expected that the Environmental Levy on cars, tyres and conventional light bulbs will be introduced during this Financial Year. Electric geysers that account for a significant share of domestic electricity consumption and could easily be replaced

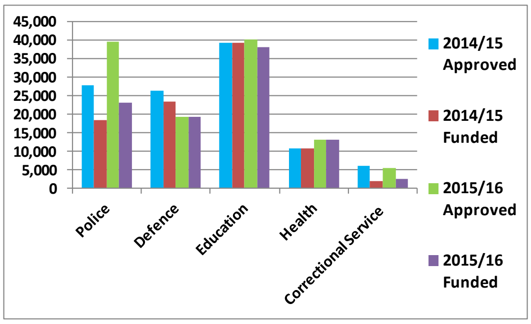
Electric geysers apparently

Budget allocation to Social Grants as share of total expenditure, 2000/01 and 2017/18



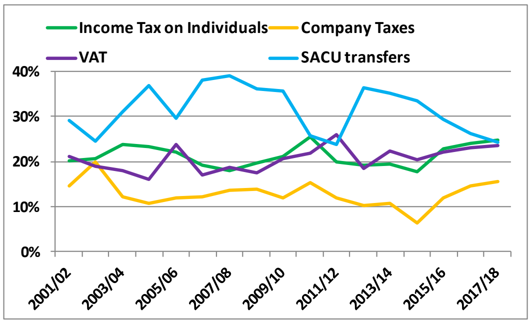
Source: Ministry of Finance: Estimates of Revenue and Expenditure 2015/16 to 2017/18.

Approved and funded positions for selected votes, 2014/15 and 2015/16



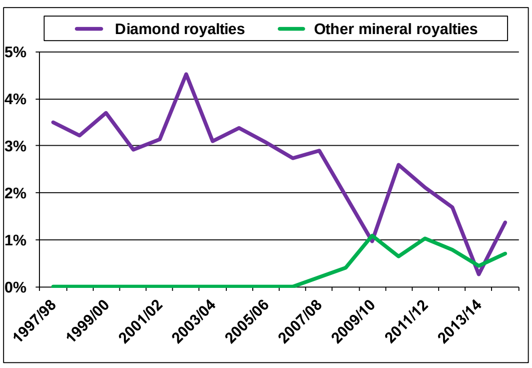
Source: Ministry of Finance: Estimates of Revenue and Expenditure 2015/16 to 2017/18.

Revenue from selected sources as share of total revenue, 2001/02 and 2017/18



Source: Ministry of Finance: Estimates of Revenue and Expenditure 2015/16 to 2017/18.

Diamond and mineral royalties' contribution to total revenue in per cent, 1997/98 and 2017/18



Source: Ministry of Finance: Estimates of Revenue and Expenditure 2015/16 to 2017/18.

not part of Environmental levy

with Solar Water Heaters are not mentioned. The levy is expected to rake in NAD518 million next year.

Deficit and public debt remain manageable, even though interest payment increase sharply

The budget deficit is estimated at NAD7.7 bn or 5.3 per cent of GDP that will be financed mainly through borrowing on the domestic market. The deficit is above the SADC Macroeconomic Convergence Criteria of 3 per cent and slightly above Namibia's own fiscal target of 5 per cent. Total public debt is anticipated to reach NAD40.7 billion, but will remain below the target of 35 per cent of GDP, which compares favourably with international financial benchmarks of 60 per cent. The risk associated with issuing bonds in foreign currency, the so-called USD500 million Eurobond, is highlighted by the increase of foreign debt from NAD10.7bn to NAD14.0bn because of the depreciation of the NAD against the USD in 2014. However, the lower interest rate environment abroad results in interest payment savings. While domestic debt accounts for some 65 per cent of total debt, 80 per cent of total interest payment accrues to domestic debts. Total interest payments are estimated at NAD3.9 bn – an increase by 54 per cent compared to 2014/15.

Overall, moderate budget increases despite new Gov. structure

Despite the expansion of Parliament, the creation of new ministries and the increase in the monthly Old Age Grant total expenditure and budget deficit increased rather moderately compared to previous years. This is indicative of the continuation of the prudent financial policy and a clearer prioritisation of Government expenditure. Whether the new and enlarged Government structure will result in an improved performance and speedier achievement of the outcomes envisaged in NDP4 remains to be seen and depends not least on a robust Monitoring and Evaluation system.

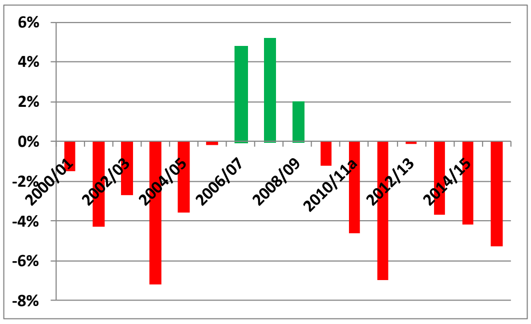
Employment rate increases, but…

The Namibia Statistics Agency released the Labour Force Survey 2014 on 26 March 2015. The survey was conducted over a period of two weeks during October 2014. Some 10,000 households were interviewed and information for more than 40,000 persons was collected. Based on the results of the survey the unemployment rate dropped from 29.6 per cent in 2013 to 28.1 per cent in 2014. However, the employment/unemployment rate is an imperfect measure since it depends on whether working age persons are classified as economically active (employed and unemployed) or as economically inactive. Economically inactive persons include homemakers, students, sick persons and pensioners among others. If a person considers her- or himself as a homemaker since the person has given up looking for work, the number of unemployed drops and so does the unemployment rate even without any additional job being created. The economically inactive population increased by almost 45,000 in 2014 compared to the previous year mainly because of an increase of more than 37,000 students. Furthermore, if persons older than 60 years of age are removed from the economically active population because the retirement age is 60 years of age, then the unemployment rate would have been higher, namely 31.7 per cent (2013) and 29.6 per cent in 2014.

…other indi-

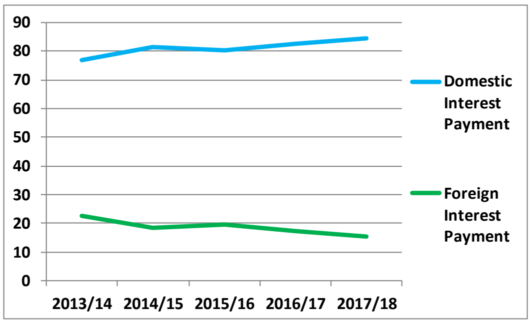
These examples illustrate that the unemployment rate depends

Budget balance in per cent, 2000/01 to 2015/16



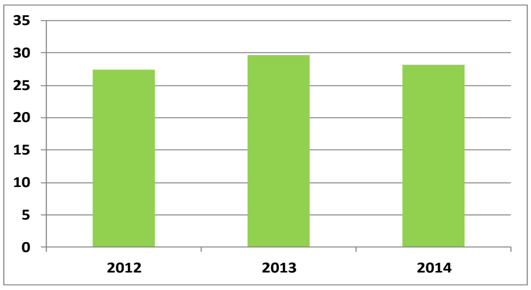
Sources: Ministry of Finance: Fiscal Strategy for 2015/16 to 2017/18 MTEF period & Budget Statement

Domestic and foreign interest payments as share of total borrowing costs in per cent, 2013/14 to 2017/18



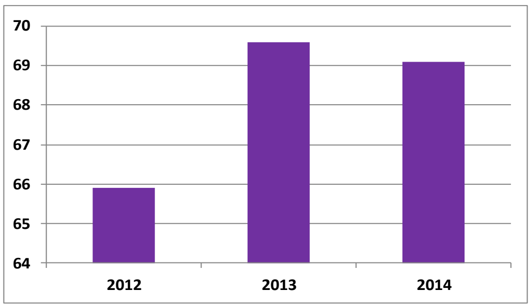
Sources: Ministry of Finance: Estimates of Revenue and Expenditure 2015/16 to 2017/18.

Unemployment Rate for 2012 to 2014 in per cent



Source: Namibia Statistics Agency, Labour Force Survey (LFS) 2014 Report

Labour Force Participation Rate for 2012 to 2014 in per cent



Source: Namibia Statistics Agency, LFS 2014

cators show deterioration:

on whether a person classifies him- or herself as economically active or inactive and hence a change in the rate can be caused by the classification rather than an increase or decrease of the number of actually employed persons. Therefore, other indicators need to be analysed in order to understand what is happening in the labour market.

Labour Force Participation Rate dropped

The Labour Force Participation Rate (LFPR) measures the share of economically active persons over the total population of working age (aged between 15 yrs of age and 65 yrs of age). The LFPR has dropped indicating that fewer persons are economically active.

Age Dependency Ratio increased…

The Age Dependency Ratio measures the number of persons of working age over the number of persons under the age of 15 and above the age of 65. The ratio has increased, implying more younger and older persons rely on the income of a working-age person.

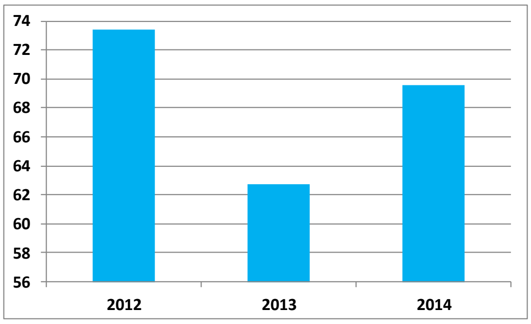
…as well as the Job Dependency Ratio

But what counts even more is how many people in the total population rely on the income of one employed person, or to put it differently, how many persons one employed person has to support. We would call this the Job Dependency Ratio. This rate has also slightly increased from 3.08 to 3.15, meaning any employed person in Namibia has to maintain more dependents. These indicators suggest that despite robust economic growth over the past couple of years and despite government interventions such as TIPEEG, the labour market situation has not improved significantly. Furthermore, the graphs illustrate that the exclusive focus on the employment rate (or unemployment rate) might result in wrong conclusions being drawn. While the unemployment rate increased in 2013, all other, more robust, indicators told a different story, namely that fewer young and old persons and fewer persons in the total population relied on one breadwinner. In 2014 it was just the other way round; any employed person had to maintain slightly more dependents.

NDP 4 priority sectors cut more than 17,000 jobs

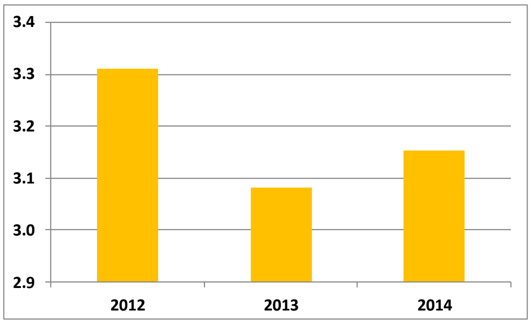
Some economic sectors have shown strong job growth during 2014. These sectors, as expected, include Wholesale and Retail Trade (up by 17,708) and Construction (8,888), while Government added almost 10,000 jobs and Private Households employed some 9,400 additional domestic and other workers. However, a couple of sectors shed more jobs than they created. These sectors included in particular the priority sectors of NDP4 that accounted for almost two thirds of all net job losses: Hotels and restaurants cut 7,588 jobs, Agriculture & Fisheries 5,405 jobs and Manufacturing 4,063. This raises the question whether the identified Strategic Initiatives to achieve the Desired Outcome set for these sectors have been implemented and the output monitored and evaluated, but more fundamentally, whether these Strategic Initiatives are necessarily job creating or whether additional efforts are required in support of job creation. More analysis of the Labour Force data is required to provide policy makers, in particular the new Minister of Labour and Employment Creation, with implementable policy options.

Age Dependency Ratio for 2012 to 2014 in per cent



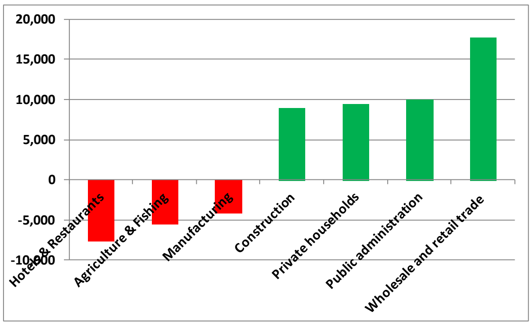
Source: Namibia Statistics Agency, LFS 2014

Job Dependency Ratio for 2012 to 2014 in per cent



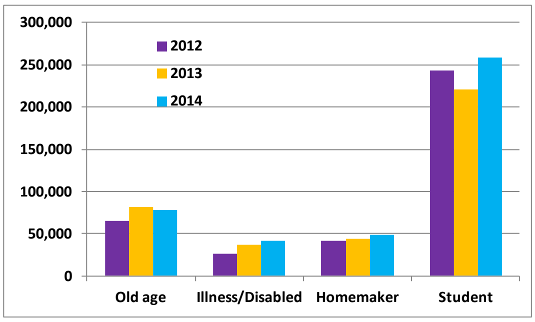
Source: Authors' own calculation based on NSA

Net job losses and creation in selected sectors, 2014



Source: Namibia Statistics Agency, LFS 2014

Main groups of the economically in-active population, 2012 to 2014



Source: Namibia Statistics Agency, LFS 2014

Hanns Seidel Foundation

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